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ABSTRACT

In four sections, this document reports on the activities of the Office of Inspector General (OIG), which provides audit, investigation, fraud detection and prevention, and certain security services to the U.S. Department of Education. Section 1 presents data on OIG audit activities, money recovered or saved, and the problem of unresolved audits, and also discusses initiatives from the Congress and the Office of Management and Budget for reducing fraud, waste, and mismanagement in federal programs. In section 2 the report reviews data on investigation activities and results, and notes several investigations started with other federal departments. OIG fraud control activities are described in section 3, including operating a complaint center, encouraging employee awareness, and developing other projects. Appendices provide data on the Education Department's accounts receivable and list the OIG audits reported. (Author/RW)

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ED218778

Office of Inspector General Semi-Annual Report to Congress

OCTOBER 1, 1980 - MARCH 31, 1981

(Submitted pursuant to Public Law 95-452)

U.S. DEPARTMENT OF EDUCATION
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EA 014 806

U.S. DEPARTMENT OF EDUCATION

SEMI-ANNUAL REPORT

October 1, 1980 - March 31, 1981

Office of Inspector General

U.S. Department of Education

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UNITED STATES DEPARTMENT OF EDUCATION
WASHINGTON, D.C. 20202

OFFICE OF INSPECTOR GENERAL

April 30, 1981

Honorable T. H. Bell
Secretary of Education
Washington, D.C. 20202

Dear Mr. Secretary:

In accordance with the requirements of Section 5 of the Inspector General Act of 1978 (P.L. 95-452), I am submitting this semi-annual report on the activities of the Department's Office of Inspector General for the six-month period ending March 31, 1981. Highlights of our activities and accomplishments are provided in the Executive Summary which begins on page i.

The Act requires that you submit this report, along with any comments of your own, to appropriate Congressional Committees and Subcommittees within 30 days.

We look forward to working with you and other Departmental officials to achieve improved efficiency and economy in the Department's programs and activities and to prevent and detect fraud and abuse. I appreciate your continuing support.

Sincerely,

James B. Thomas, Jr.

James B. Thomas, Jr.
Acting Inspector General

EXECUTIVE SUMMARY

This is the second semi-annual report issued by the Department of Education (ED), Office of Inspector General (OIG). The report summarizes the activities and accomplishments of the OIG for the period October 1, 1980 through March 31, 1981. The report was prepared pursuant to the provisions of the Inspector General Act of 1978. Specific reporting requirements of the Act, and the location in the report where these matters are addressed, are shown in Appendix 1. Highlights of our activities and accomplishments for this reporting period follow.

Audit Activity - We have issued or processed a total of 2,761 audit reports during this period which questioned costs totalling about $30 million and recommended numerous improvements in operations. The number of reports issued or processed increased by 61 percent over the previous period and is indicative of a trend which is expected to continue. Our accomplishments also included resolution and closure of 1,061 audit reports. Of these 442 had monetary findings which have or will result in recoveries or savings of about $8.8 million. During this period, we also initiated a number of important internal audits on Departmental programs and activities and issued a major internal audit report on the Department's control over payments.

Results of some of the more significant audits completed this period follow:

- $12.3 million in Title I funds was improperly used by one State to provide general aid to education rather than using the funds to meet the special needs of educationally deprived children. A refund of $12.3 million to ED was recommended.

- $1.1 million in Title I funds was improperly claimed by one State because of significant inaccuracies in the State's financial status reports supporting the claim. Repayment of $1.1 million to ED was recommended.

- $841,000 in overpayments occurred in one State because reimbursement rates used by the State for vocational rehabilitation services were not based on reasonable cost principles. The auditors recommended a financial adjustment of $841,000 and procedural changes in the State's reimbursement methods.

- $2.1 million in Title I funds was improperly used by one State to fund a kindergarten construction project which was designed to meet the general needs of the public education system rather than meeting the needs of educationally deprived children. Repayment of $2.1 million to ED was recommended.

- An internal audit on controls over payments disclosed significant internal control weaknesses which resulted in overpayments to grantees, loss of control over appropriation balances and increased susceptibility of the system to fraud and abuse. ED officials generally agreed with our findings and either accepted our recommendations or proposed alternate actions which satisfied the intent of the recommendations.

A significant problem reported in the previous semi-annual report, and again in this one, relates to unresolved audit reports. The number of these reports continues to increase dramatically, and includes outstanding questioned costs of about $68 million. The OIG is working closely with ED officials on this problem and is developing a formal audit resolution system. In addition, the Secretary has designated the Under Secretary to serve as the Department's focal point in assuring that recommendations contained in Inspector

General and U.S. General Accounting Office audit reports are followed up and resolved in a timely manner. These actions will serve to improve the Department's posture in this area.

Increased emphasis at all levels of Government on the problems of fraud, waste and mismanagement in Federal programs and operations has generated many new initiatives which will affect OIG operations. These initiatives, discussed on page 22, will play an important role in the course and direction of our efforts in the coming months. We have initiated audits to meet several of these requirements, and have intensified our efforts to fully implement the requirements of Attachment P to Office of Management and Budget Circular A-102, Uniform Administrative Requirements for Grants-in-Aid to State and Local Governments.

Details of our audit activity are contained in Section I which begins on page 1. Appendix 3 contains a listing of audit reports completed by Federal auditors during this period.

Investigation Activity - During this period, we opened 220 new cases and closed a total of 124, leaving a total of 249 cases pending as of March 31, 1981. This compares with 153 pending cases at the close of the previous reporting period. During the reporting period, ten of the cases which had been referred were accepted for prosecution by U.S. Attorneys; 22 of the cases which had been referred were declined. Investigation activities culminated in five indictments and 12 convictions during the six month period. In addition, administrative

actions were recommended in several cases. Results of our investigative activities include:

- o A twenty count indictment against an individual for committing fraud in the Guaranteed Student Loan program.
- o An indictment against an individual for embezzlement in connection with the National Direct Student Loan program.
- o Acceptance by the U.S. Attorney of a case involving use of fictitious names and social security numbers by an individual to obtain Federal grants and loans.
- o Administrative action taken against an employee who falsified travel reimbursement claims. Departmental managers discharged the employee and tightened reimbursement procedures as a direct result of the investigation.
- o A 27 count indictment was returned against a financial organization which used non-existent Guaranteed Student Loan promissory notes as collateral for multimillion dollar loans.
- o A cooperative investigation by the OIG and another Federal investigation agency uncovered a kickback scheme by a school official who demanded 10 percent of the Guaranteed Student Loan monies a student received.

Efforts were intensified in this period to expand OIG's proactive investigatory role in an effort to seek out and prevent fraud. Details regarding our investigation activity are presented in Section II which begins on page 29.

Fraud Control Activity - The OIG has begun the important task of assessing the vulnerability of the Department's programs and activities to fraud and abuse, and has selected the Student Financial Aid programs as its first project. Additionally, emphasis and attention has been directed at increasing employees' awareness to potential fraud and abuse

in the Department's activities and programs. A pamphlet describing the operations and mission of the OIG has been issued to all ED employees as part of this effort. As of March 31, 1981 a total of 80 complaints had been received by the complaint center. Of the 80 complaints received, 43 were handled by the OIG and the remaining 37 were referred to program offices for action. A detailed discussion of our fraud control activities is contained in Section III which begins on page 39.

Some of the other matters addressed in the report include coordination of U.S. General Accounting Office reports relating to ED programs and operations, review of legislation and regulations, the status of subpoenas issued by the OIG, and our participation in an Office of Personnel Management review of the Department. Details of other matters are discussed in Section IV which begins on page 43.

While much remains to be accomplished, our efforts to date are encouraging and are beginning to result in substantive improvement in the audit and investigative coverage being provided to the Department.

SECTION I

AUDIT ACTIVITIES

A. INTRODUCTION

This section of the report summarizes our audit activities for the six month period ending March 31, 1981. This section includes summary statistics on audits issued or processed and costs questioned, highlights of significant findings and recommendations, data on the status of unresolved audits, and updates on the status of significant recommendations included in the previous semi-annual report. A discussion on the impact of Congressional and Office of Management and Budget initiatives on our operations is also included. Audit reports completed by Federal auditors during the period are listed in Appendix 3.

B. ACCOMPLISHMENTS

During the six month period ending March 31, 1981 a total of 2,761 audit reports were issued or processed. Audits issued are those completed by our audit staff. Audits processed are those completed by other Federal auditors, State and other non-Federal auditors, and Independent Public Accountants. Audits performed by the latter groups are accepted and processed by our auditors on behalf of the Department. Total questioned costs in reports issued or processed amounted to about $30 million, and represent Federal funds which were not spent in compliance with legal requirements or the terms of

grant or contract provisions. The reports also included recommendations directed toward compliance with Federal grant requirements, and management improvements needed to insure that activities or operations under review were being efficiently and economically administered. The number of reports issued or processed during this period increased by 1,043, a 61 percent increase over the previous reporting period. The following schedule shows the source of the audits and the number of reports.

SOURCE OF AUDITS ISSUED OR PROCESSED
October 1, 1980 through March 31, 1981

Source of Audits	Reports With Findings	Reports Without Findings	Total Reports Issued/Processed
Federal Auditors	79	54	133
State and Other Non-Federal Auditors	92	43	135
Independent Public Accountants	1,860	633	2,493
Total Audits Issued/Processed	2,031	730	2,761

The following is a schedule of costs questioned in the 2,031 reports which had findings. The information is listed by major operating components within ED.

SCHEDULE OF AUDITS ISSUED OR PROCESSED AND COSTS QUESTIONED BY OPERATING COMPONENT

OPERATING COMPONENT	NO. OF REPORTS ISSUED/PROCESSED	COSTS QUESTIONED
Office of Postsecondary Education	1,914	$11,658,200
Office of Procurement and Assistance Management	78	637,700
Office of Elementary and Secondary Education	9	15,628,100
Office of Special Education and Rehabilitative Services	9	1,689,700
Office of Vocational and Adult Education	1	-0-
Office of Educational Research and Improvement	20	338,800
	2,031	$29,952,500

Reports issued or processed during this period include: financial and compliance audits of grantee operations; economy, efficiency, and effectiveness reviews of Departmental programs and operations; and contract audits. Management action taken on questioned costs is discussed under the audit resolution section, page 13.

Most of the audit reports issued or processed during this period involved financial and compliance reviews of Student Financial Assistance programs administered by the Office of Postsecondary Education. Audits required by Department regulations were performed primarily by Independent Public Accountants and represent 90 percent of the audit reports issued or processed in the last six months.

Audits by Independent Public Accountants are performed in accordance with guidelines established by the OIG. These reports are reviewed, approved, and accepted on behalf of the Department by our Regional Audit Offices prior to release to ensure they meet OIG reporting standards and criteria. Quality assurance reviews are also performed by OIG auditors on the actual audit work performed by the public accountants. These reviews are performed on approximately 5 percent of all audits performed by public accountants to ensure that the audit work meets auditing standards established by the Comptroller General.

The remaining 10 percent of the audits were performed by the OIG staff, other Federal auditors (on a reimbursable basis), or State and other non-Federal auditors. In general, audits performed by the OIG staff represented in-depth internal and external reviews of ED's programs and operations at the Federal, State and local levels.

C. HIGHLIGHTS OF SIGNIFICANT AUDITS

Audit reports cover a wide range of activities involving thousands of diverse, geographically dispersed entities. These entities include State and local governments, educational institutions, non-profit organizations, and Departmental headquarters and field installations. Some of the more significant audit findings disclosed by these reviews are highlighted below.

1. Student Financial Assistance

Student Financial Assistance programs are administered by the Office of Postsecondary Education and provide financial aid to individuals to obtain education or training beyond the high school level. Financial aid to students amounts to about $5.2 billion annually in grants, loans or earnings through work study programs.

During the six month period covered by this report, the OIG issued or processed 1,914 reports that identified deficiencies in the administration of the Student Financial Assistance programs at educational institutions. Total costs questioned in these reports amounted to approximately $11.7 million.

a. College Work Study and National Direct Student Loan Funds of $960,000 Misused.

An audit of a university disclosed that College Work Study funds of $675,000 were paid to ineligible students and that combined College Work Study and National Direct Student Loan funds of $285,000 were used improperly by the university for general operating purposes. The auditors recommended that the university reimburse ED for the $960,000 improperly used.

b. National Direct Student Loan Funds of About $381,000 Overdrawn

Audits at two colleges disclosed that the institutions had drawn funds in excess of their requirements for the National

Direct Student Loan program and had improperly used the funds for current operations or to invest in certificates of deposit. The auditors recommended that the colleges repay the National Direct Student Loan account $247,700 and $133,200 respectively.

2. Vocational Rehabilitation

The Vocational Rehabilitation program is administered at the Federal level by the Office of Special Education and Rehabilitative Services. The program provides assistance to States for rehabilitating and preparing physically or mentally handicapped persons for gainful employment. States receive grants to help meet the cost of providing vocational rehabilitation services such as job counseling, physical restoration services, training and job placement. The Department provides about $983 million annually in support of State Vocational Rehabilitation programs.

During the last six months, the OIG issued or processed nine reports on the Vocational Rehabilitation program. Total costs questioned in these reports amounted to approximately $1.7 million.

a. Failure to Use Reasonable Cost Principles Resulted in Federal Overpayments in Excess of $841,000.

In one State, an audit disclosed that the method used to reimburse sheltered workshops for vocational rehabilitation

services resulted in overpayments of $841,000. This occurred because reimbursement rates were not based on reasonable cost principles as required by Federal and State guidelines. The auditors recommended a financial adjustment of $841,000 as well as procedural changes in the State's reimbursement method to preclude future overpayments.

b. Savings of $100,000 per Year Possible Through Improved Procurement Practices

The audit discussed above also disclosed that improved procurement practices for purchase of prosthetic devices for vocational rehabilitation clients could save over $100,000 per year in program costs. The program was paying about 26 percent more for prosthetic services than vendors were accepting under the Medicaid program. Auditors recommended changes in the State's procurement process to achieve future cost savings.

c. $750,000 in Overcharge of Indirect Costs.

Auditors determined that over $750,000 was improperly claimed for salaries of personnel who performed services not directly related to the Vocational Rehabilitation program. Program officials have concurred in a negotiated recovery of $532,000.

3. Elementary and Secondary Education

Title I of the Elementary and Secondary Education Act (as amended) authorizes Federal financial assistance for planning and operating special education programs for educationally deprived children in areas with high concentrations of children from low income families. The Department spends about $4 billion annually to provide Title I services to approximately 6 million public school students. Title I funds are used to supplement other programs and are not intended to provide general aid to education.

During the period October 1, 1980 to March 31, 1981, 9 reports were issued or processed by the OIG. The audit reports questioned costs totalling approximately $15.6 million. Costs questioned were attributable to major deficiencies in the administration of Title I programs by various States.

a. Improper Use of $12.3 Million to Fund General Aid to Education

An audit in one State disclosed that $12.3 million in Title I funds were improperly used to provide general aid to education rather than to meet the special needs of those educationally deprived children identified as most in need of special assistance. Specifically, the auditors noted that the State:

- Selected attendance areas for Title I projects which were based on poverty levels rather than on the level of educational deprivation;

- Had not specified criteria to be used by schools for the selection of Title I participants as required;
- Designed Title I projects to meet the needs of all students rather than meeting the special educational needs of educationally deprived children identified as most in need of special assistance.

The auditors recommended that the State repay $12.3 million and strengthen its procedures for the review of Title I applications and activities to assure future projects meet the Title I requirements.

b. $2.1 Million Improperly Used to Fund Kindergarten Construction Project

Another audit disclosed that $2.1 million in Title I funds were improperly used by the State to fund a kindergarten construction project. The auditors found that, contrary to Federal regulations, the project proposal lacked sufficient information and documentation to:

- Identify the special educational needs of children to be served;
- Show how the educationally deprived children in the project were to be identified; and
- Specify the criteria by which educationally deprived children were to be selected to receive Title I services.

The auditors concluded that the State had initiated, reviewed and approved a project proposal designed to meet the general needs of its public education system by providing kindergarten equipment and classrooms to schools that lacked these services. The State maintained that the construction project

was allowable since Title I funds can be used for general upgrading of the school system.

The auditors recommended that the State repay $2.1 million to ED and establish controls to assure that future Title I applications contain documentation demonstrating compliance with Federal regulations.

c. Federal Share of Costs Overstated by $1.1 Million

An audit in one State disclosed significant inaccuracies in the State's Title I financial status report pertaining to the Federal share of Title I outlays for one fiscal year. The auditors found that the Federal share of the State's Title I costs were overstated by $1.1 million. Overstatements were attributable to:

- duplicate billings,
- unallowable reserve for contingencies,
- unpaid obligations that were overstated,
- salary charges that should have been paid from the State's own funds,
- charges not reduced to offset credits, and
- overstatement of indirect costs.

The auditors recommended that the State repay $1.1 million to ED and make procedural changes to improve the State's financial accounting system.

4. Contracts and Discretionary Grants

ED annually awards approximately 11,800 discretionary grants and 1,300 contracts totalling about $1.3 billion. The awards are made to State and local governments, educational institutions and profit and non-profit organizations for a variety of educational services. Within the Department, responsibility for awarding discretionary grants and contracts rests with the Office of Procurement and Assistance Management. The OIG provides a variety of contract and grant audit services to the Department, including audits of cost proposals and contract closing statements.

During this reporting period, OIG issued or processed 78 contract and grant audit reports that questioned costs amounting to about $638,000 and identified potential contract cost avoidance of over $2 million. These audits continue to be effective in identifying potential waste and abuse in the Department's procurement activities.

Reports on audits of cost proposals are advisory in nature. However, they are extremely important because they serve to assist the Department in final negotiations with contractors, by identifying areas for potential cost savings. The following is an example of an overstated cost proposal:

- A contractor submitted a proposal of $4.5 million to provide keypunch services for the Basic Educational Opportunity Grant program. An audit of this cost proposal disclosed that the contractor's actual costs to provide these services would amount to only

$3.5 million. Auditors recommended that the $4.5 million proposal be reduced by $1.0 million. Final contract negotiations were held with the contractor on January 27, 1981. The Department reduced the contractor's proposal by $551,000.

5. Internal Audits

Audits of Departmental operations continue to be an OIG priority. The OIG initiated a number of internal audits during this period. One of the internal audit reports issued, "Review of Control over Payments, Department of Education," is described below.

A review of the Department's control over $2.5 billion of direct payments to contractors and grantees identified internal control weaknesses that resulted in overpayments to grantees, loss of control over appropriation balances, and created a strong potential for losses due to fraud. The report also identified weaknesses in the automated accounting records that contributed to these conditions and discussed the need for improved internal controls including the separation of duties in the payment process, more frequent report preparation, and physical security over fiscal documents and negotiable receipts.

More specifically, the review showed that the Department does not use its computerized accounting system to control disbursements but rather relies almost entirely on manual processes and the integrity of its employees to assure propriety of payments. It does not rely on its automated system because adequate controls have not been established to

assure that all payment transactions are entered. For example, at least $105 million of payments made in one fiscal year had not been recorded in the accounting system. In several cases, payments had been entered twice, causing an overstatement of certain accounts. In addition, wide discrepancies existed between data recorded in the ED automated system and the Treasury Department's appropriation accounts. For example, in May 1979 one appropriation account (based on Treasury records) reflected a $111 million overdisbursement while ED's automated system showed a $192 million cash balance for the same appropriation. The Department adjusted this discrepancy by properly redistributing the difference to other appropriations.

The Acting Assistant Secretary for Management concurred in our assessment of the Department's financial management system, and agreed to implement either the recommendations, or proposed acceptable alternate actions which satisified the intent of the recommendations. If properly implemented, these actions should correct the deficiencies noted in our report.

D. AUDIT RESOLUTION

Our prior semi-annual report noted that the Department began operations with a significant backlog of unresolved audits and that this problem has and will continue to become even greater because of new regulations requiring biennial audits in major ED programs. Since then, the OIG has worked closely with ED managers to resolve this problem. As a first step the IG pro-

posed that the Department establish a formal audit resolution system.

This proposal was approved by the Secretary of Education, and the Inspector General is currently working on the Departmental instructions to implement the system. As currently envisioned the system will:

- Identify and quickly bring to top management's attention any major problems disclosed in audit findings;
- Establish a process to assure that audit recommendations are implemented quickly; and
- Make managers responsible for implementation of audit recommendations.

In addition, the Secretary has designated the Under Secretary to serve as the Department's focal point for assuring that recommendations contained in Inspector General and U.S. General Accounting Office audit reports are followed up and resolved in a timely manner.

Congress and the U.S. General Accounting Office have recently criticized Federal agencies for their poor performance in resolving audits. These studies, as well as our own analysis of the problem within ED, underscore the need for a strong and systematic approach to audit resolution.

During the last six months, a total of 2,761 audit reports were issued or processed, compared to 1,718 reports in the previous six month period. Of this number, 2,031 required or will require corrective action by program managers. Audit

resolution activity for the period, by responsible action offices, is shown in the following table.

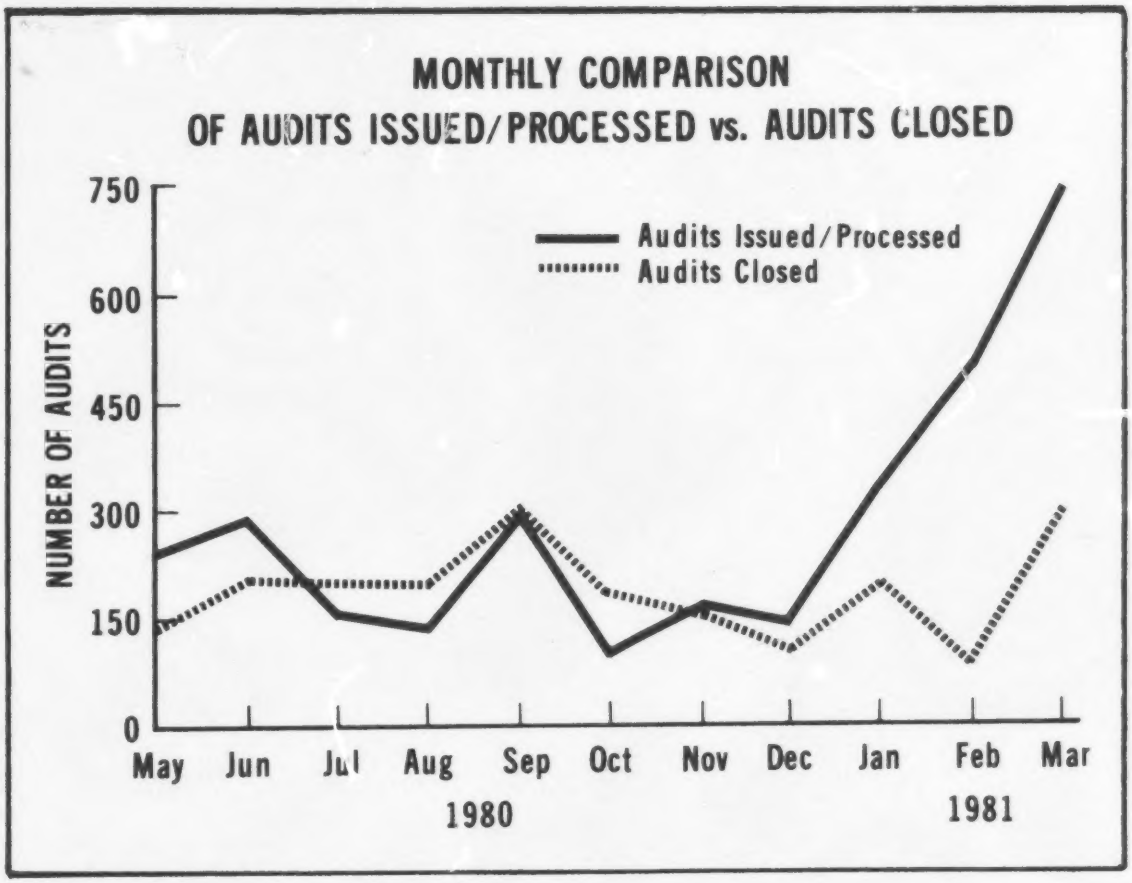
AUDIT RESOLUTION ACTIVITY

OCTOBER 1, 1980 to MARCH 31, 1981

Action Office	Unresolved Audits on Hand at 10/1/80	Audits Issued This Period	Audits Closed This Period	Unresolved Audits on Hand at 3/31/81
Postsecondary Education	1,379	1,914	957	2,336
Procurement and Assistance Management	138	78	58	158
Elementary and Secondary Education	6	9	1	14
Special Education and Rehabilitative Services	9	9	7	11
Vocational and Adult Education	12	1	5	8
Educational Research and Improvement	3	0	0	3
National Institute of Education	18	20	33	5
TOTAL	1,565	2,031	1,061	2,535

As shown, the number of unresolved audits on hand at the end of this reporting period increased dramatically -- more than 62 percent over the prior period. Continued growth in the number of unresolved audits on hand is expected to continue because of the increasing number of audits being issued or processed. The significance of the increase compared to the

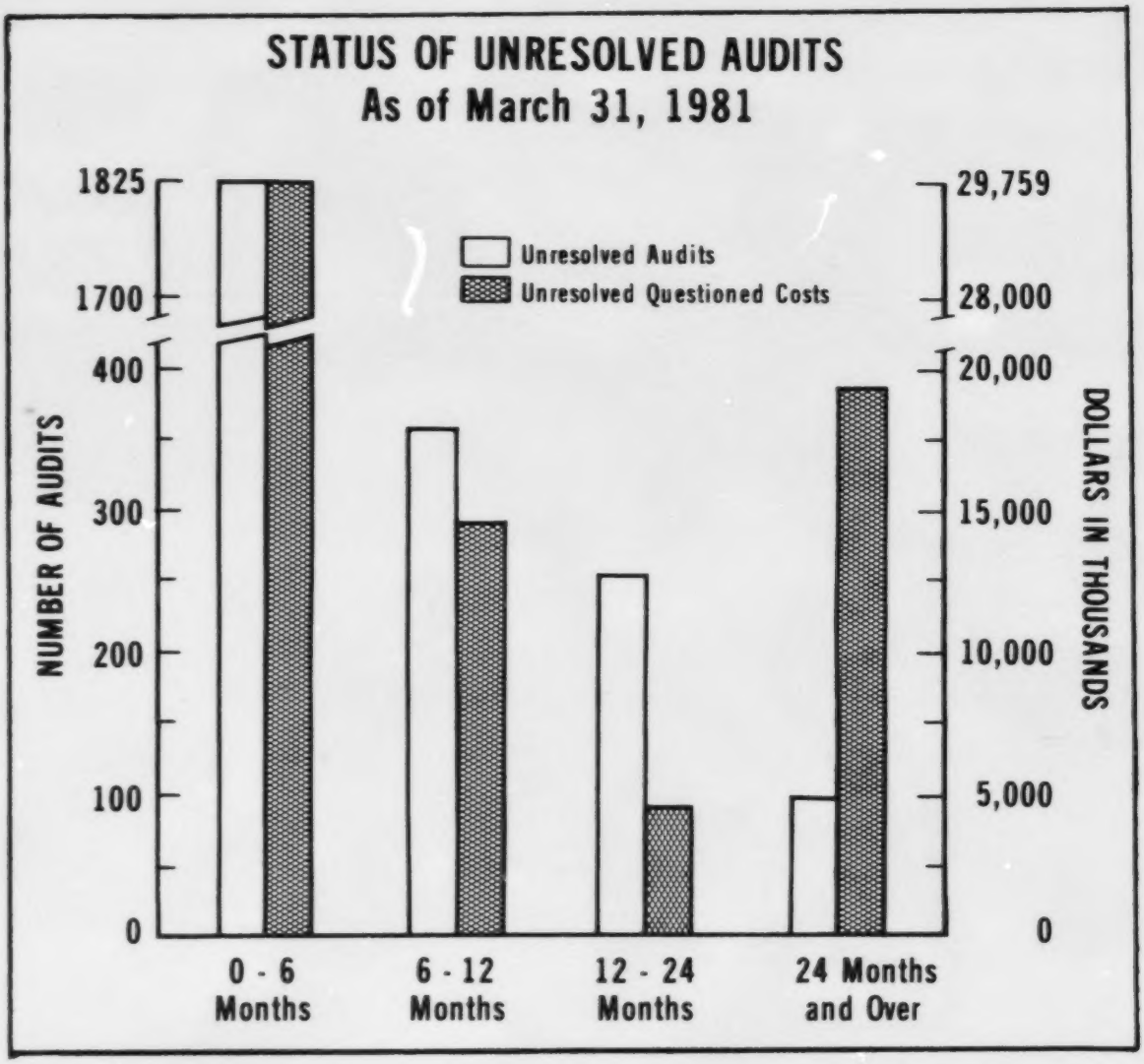
status during the previous seven month period is reflected in the following trend chart.



Unless the trend shown above is reversed, the Department will be unable to comply with the recent legislative requirement that all audits be closed within six months.

A profile of unresolved audits by age group is given in the following diagram. The 2,535 unresolved audits have

questioned costs amounting to $68 million. In tandem, these two graphs illustrate the rapid increase in the number and rate of audit reports issued or processed, and the failure to match these increases with audit closeouts. If additional attention is not focused on this matter, we anticipate that this trend will continue and that the number of audits over six months old will increase as well.



1. Recovery of Questioned Costs

Of the 1,061 audit reports closed this period, (See page 15) 442 involved monetary findings which questioned costs totalling over $33.1 million.

Program managers sustained $7.6 million in questioned costs and identified an additional $1.2 million in disallowances. Of this amount, $2.6 million has already been collected and the remaining $6.2 million has been marked for recovery through establishment of accounts receivable or offsets against grantee accounts. Of the remaining $25.5 million in questioned costs, $19.5 million was subsequently allowed after the grantee provided supporting documentation. The remaining $6 million was not sustained.

E. STATUS OF PRIOR AUDIT RECOMMENDATIONS

The status of significant recommendations included in our first semi-annual report, covering the period April 1, 1980 through September 30, 1980, is shown below. Management has generally been responsive to our recommendations. However, the matters reported below are complex, involve large amounts of questioned costs, and require action at the grantee level. Resolution and recovery of the funds for these cases is continuing, and will be monitored by the OIG.

1. Vocational Rehabilitation

a. Ineligible Program Costs (page 14 prior report)

An audit of vocational rehabilitation services in one State disclosed that services provided at seven State institutions did not meet Federal requirements because: (1) the State did not control the programs provided by the institutions; (2) the services or patterns of services provided were not new; and (3) the services would have been provided without the cooperative Vocational Rehabilitation program.

We recommended that the State refund $949,000 to the Department and assure that Federal requirements be met in the future.

Status. Athough Departmental officials agreed with OIG's findings and recommendations and are pursuing this matter, recovery of the $949,000 has not been affected.

b. Processing & Control of Vocational Rehabilitation Checks (Page 14 prior report)

Another audit disclosed that virtually all responsibility for authorizing, preparing and delivering maintenance and transportation checks to clients (about 50,000 checks, totalling $4 million) was vested with the program counselors without adequate safeguards to ensure the integrity of disbursed funds.

We recommended a number of specific internal controls to assure proper issuance and control of vocational rehabilitation checks administered by the State agency.

Status. Departmental officials have not resolved the recommendations contained in this report, but are continuing their efforts with the State to correct the deficiencies noted.

2. Elementary and Secondary Education - Title I (page 15 prior report)

Reviews of approximately $264 million of program expenditures in two States disclosed that the States had used Title I funds for ineligible projects and for services at schools not eligible for Title I assistance.

In our audit reports of July 1980 and September 1980, we recommended that $4.4 million be returned to the Department and that the State agencies involved improve their procedures for approving and monitoring Title I projects.

Status. Departmental efforts to resolve these deficiencies and recover the funds are continuing.

3. Vocational Education (Page 16 prior report)

An audit of vocational education activities in one State disclosed that five local programs had charged unallowable costs of $142,800. Some problems noted related to: improper

fund allocations, preparation of the State plan without local participation, and failure of the State to use the required ten percent reserve of funds exclusively for handicapped individuals.

Status. Departmental officials concurred with our findings and indicated they would seek recovery of the $142,800. However, final resolution of the matters contained in the report has not been completed.

4. Student Financial Assistance (page 17 prior report)

An audit of a college's administration of Student Financial Assistance programs disclosed that the school had: (1) made awards to ineligible students; (2) not documented its determinations of student financial need; and (3) not identified disbursements to specific students.

As a result, an estimated $440,000 of $9.4 million administered by the college had been improperly used and the allowability of an additional $1.3 million was questioned.

Status. Although final resolution of these findings is dependent upon the outcome of legal proceedings between ED and the college, the Department has taken some interim measures. In a letter dated January 16, 1981 the Department instructed the college to modify its 1979/80 award for the College Work Study and Supplemental Education Opportunity Grant programs by $201,000 and $55,000, respectively. In addition, the college was instructed to repay $873,000 in National Direct Student

Loan funds. In a letter dated February 13, 1981 the college requested a 60 day extension to provide time to examine the Department's calculation of loan program adjustments and to prepare a reply to the Department.

F. CONGRESSIONAL AND OMB INITIATIVES

Increased emphasis at all levels of Government on the problems of fraud, waste and mismanagement in Federal programs and operations has generated many new initiatives which will affect OIG operations.

These initiatives direct and, in some cases, legislatively mandate that Inspectors General intensify and expand audit coverage and oversight in specific areas. Included among these are debt collection, contracting, year-end spending, internal controls, and implementation of the single audit concept for State and local governments. The major thrust of all these initiatives is generally directed toward preventing and detecting fraud and abuse, and ensuring that government programs and operations are being properly controlled and carried out in an efficient and economical manner.

The thrust of the initiatives also makes it clear that the highest levels of Government are looking to the operations of the various Inspectors General as a significant force in combatting and preventing fraud, abuse, and mismanagement.

We fully endorse the intent and objectives of these initiatives and we have taken a number of positive steps to meet these new responsibilities.

1. Senate Committee Requests

The Senate Committee report on the Supplemental Appropriations and Rescission Bill of 1980 included language which directs that the OIG report on actions taken by the Department to improve debt collection, and to include in our semi-annual report a summary of the total amounts due, overdue, and written off as uncollectible during the reporting period. The Committee report also directs that we submit to Congress an evaluation of the Department's progress in instituting effective management controls and improving the accuracy and completeness of data provided to the Federal Procurement Data System. In response to these requests, we have obtained information from the Office of Financial Management showing the status of the amount of debts outstanding, overdue, and written off by the Department. This information is shown in Appendix 2. We also plan to perform, in the near future, an in-depth audit of debt collection policies, procedures and practices used by the Department to record, bill, collect and write off amounts due. We have also initiated a review of consulting services contracts to determine whether specific consulting service contracts and other contracts were properly categorized and accurately reported to the Federal Procurement Data System. The audit is being accomplished in accordance with government wide guidelines prepared by a joint OIG task group.

In a report by the Senate Subcommittee on Oversight of Government Management, Committee on Govermental Affairs, we were requested to make periodic reports on the efficacy of the Department's plan to improve competition in Government procurement and to conduct over the next two fiscal years thorough and vigorous audits of year-end contract obligations. In response to this request, we are currently performing a review of year-end procurements. During the review, we will examine procurement awards made during the last quarter of Fiscal Year 1980 to determine whether adequate lead time existed, competitive practices were followed, contract files were properly documented, the need for services was adequately justified and whether the proper fund certification procedures were followed.

The audit will encompass a review of 49 new contracts awarded in Fiscal Year 1980 totalling about $11 million and 34 contract modifications to existing contracts totalling about $9.5 million affecting contracts awarded in prior fiscal years.

2. Single Audit Concept

Attachment P to Office of Management and Budget Circular A-102 requires State and local governments receiving Federal grant funds to have independent financial and compliance audits performed of their operations at least once every two years. The Attachment provides for designation of cognizant Federal

agencies with oversight responsibility for these non-Federal audits. The Attachment also directs Federal departments and agencies to improve audit coordination, and to increase their reliance on audits made by State or local governments.

The Office of Management and Budget has designated the OIG in ED as the cognizant audit agency for more than 50 State agencies, consisting of State Education and Vocational Rehabilitation agencies and Commissions for the Blind. We will also quite likely be designated the cognizant agency for all 16,000 school districts. Audit cognizance responsibilities include: making quality assessment reviews of the work of non-federal audit organizations; ensuring that all reports are received, reviewed, and distributed to appropriate Federal and State officials; maintaining a follow-up system on audit findings; and informing other audit agencies of irregularities uncovered.

The OIG has been aggressive in implementing the provisions of A-102, Attachment P. As a first step toward meeting these requirements, all Regional Inspectors General for Audit have been directed to visit State Education Agencies to familarize them with the requirements of Attachment P. The Regional Inspectors General have also been directed to provide prompt assistance to State Education Agencies in implementing these new procedures.

Additionally, the OIG is providing guidance and technical assistance to several State Education Agencies, Independent

Public Accounting firms and State audit organizations which are conducting pilot audits or developing audit programs designed to satisfy A-102 audit requirements. We also plan to work closely with Departmental officials to ensure that the new audit requirements are incorporated in their grant award systems. During this period we have processed 76 audit reports prepared by Independent Public Accountants in accordance with the A-102 requirements. Our efforts to implement Attachment P will continue to be a high priority.

3. Internal Controls

The U.S. General Accounting Office has reported and testified before Congressional Committees that the lack of adequate internal controls has been the most important factor contributing to fraud and waste in the Federal government. Congress, recognizing the need for improvement in internal control systems, has proposed legislation which would require agency heads to report annually to the President on the adequacy of their agency's internal accounting and control systems.

Concerns about the adequacy of internal controls has also been expressed by the Office of Management and Budget. As a result, that Office has issued a draft circular providing policy guidance on the development, implementation and review of internal control. The circular would require Inspectors

General to review internal control directives, systems and regulations, monitor compliance and provide advice to agency heads.

This high level emphasis on improving internal control systems will continue to affect our audit activities. If adopted, the draft circular would require periodic internal audits to ensure the effectiveness of control systems in ED. The circular would also require us to perform vulnerability assessments and risk analyses for each agency component at least each 5 years. The legislative proposal, if passed, will also impact on OIG activity. OIG audits of internal control systems would provide information contributing to the agency's assessment of its accounting and administrative controls.

Since the inception of the OIG in May 1980, we have placed priority on allocating staff resources to perform internal audits of ED's accounting and administrative control systems. These audits have been directed towards determining whether ED internal controls are adequate in concept, effective in application and successful in providing accurate and useful data.

4. Congressional Requests

The current emphasis on the elimination of fraud, waste and mismanagement in government programs and operations has generated numerous requests from Congressional sources. During the last six month period, we have received and

responded to 25 requests for audit and investigation reports or information on many of the Department's major programs. We also responded to a detailed questionnaire which sought recommendations on how to improve financial and administrative activities throughout the Federal government.

SECTION II

INVESTIGATION ACTIVITIES

A. INTRODUCTION

This section of the report provides an overview of the investigation activities during this reporting period. It includes statistical data pertaining to investigations, results of investigations, and highlights of cases referred for prosecution or administrative action. The section also includes an update of significant cases previously reported, and a discussion of our proactive initiatives.

B. INVESTIGATION STATISTICS AND ANALYSES

The number of cases under active investigation has increased since the last reporting period. Cases which had been carried in a "backlog" status have been converted to "active" and received investigative attention. Many of these cases were holdovers from the former Office of Education's Division of Compliance and have been closed for lack of criminal potential and, where appropriate, forwarded to program offices for administrative action.

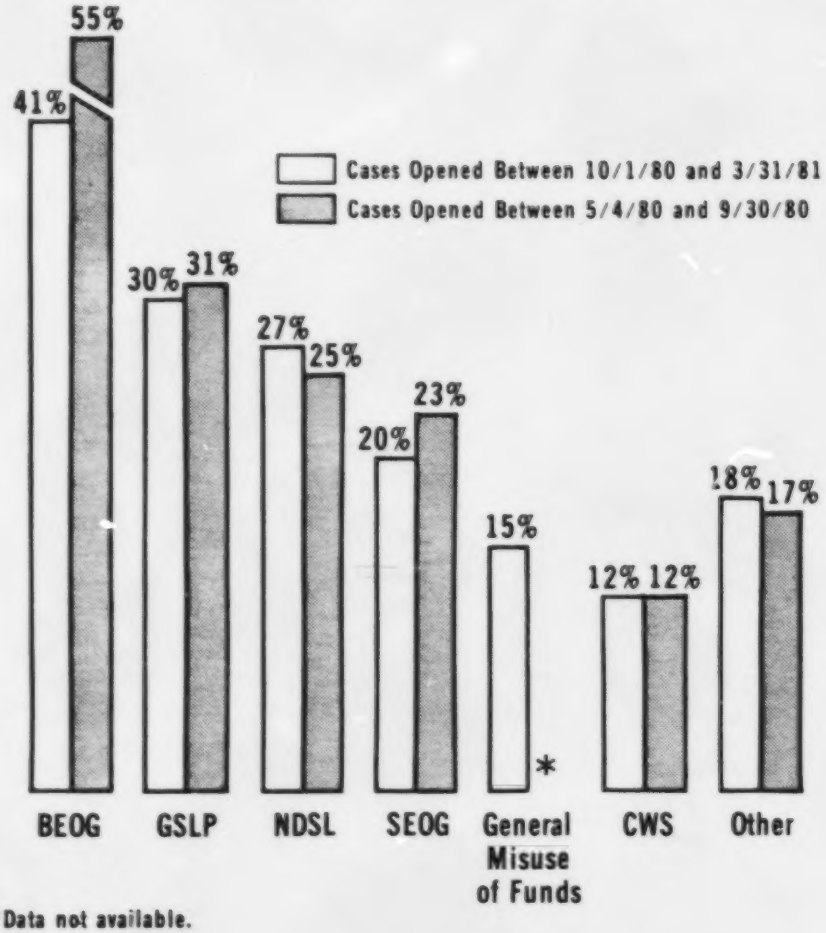
Summary data on the number of cases opened, closed and pending as of March 31, 1981 follows:

Cases pending September 30, 1980	153
Cases opened this period	220
Cases closed this period	124
Cases pending March 31, 1981	249

The case workload depicted above was analyzed to determine: (1) program areas generating the greatest number of investigation cases; (2) patterns of alleged violations; and (3) major sources of allegations.

As in the last report a majority of investigations continue to involve Student Financial Assistance programs. However, an increasing proportion of our investigative workload involves other program areas. This is a direct result of the Inspector General's emphasis on comprehensive coverage of the Department's operations and programs. During the period ended September 30, 1980, OIG investigations affected a total of 19 programs. Cases which were opened during the current period affected 36 different programs. The chart below includes a non-program specific category (General Misuse of Funds). This is the most rapidly growing area of investigations. These cases include misconduct or abuse of Federal funds by Departmental employees or recipients of awards and grants.

DEPARTMENTAL PROGRAMS INVOLVED IN CASES OPENED



*Data not available.

NOTE: The total of all percentages exceeds 100 percent because many cases involve more than one program. The figures indicate the percentage of cases involving a particular program.

BEOG - Basic Educational Opportunity Grant
GSLP - Guaranteed Student Loan
NDSL - National Direct Student Loan
SEOG - Supplemental Educational Opportunity Grant
CWS - College Work Study

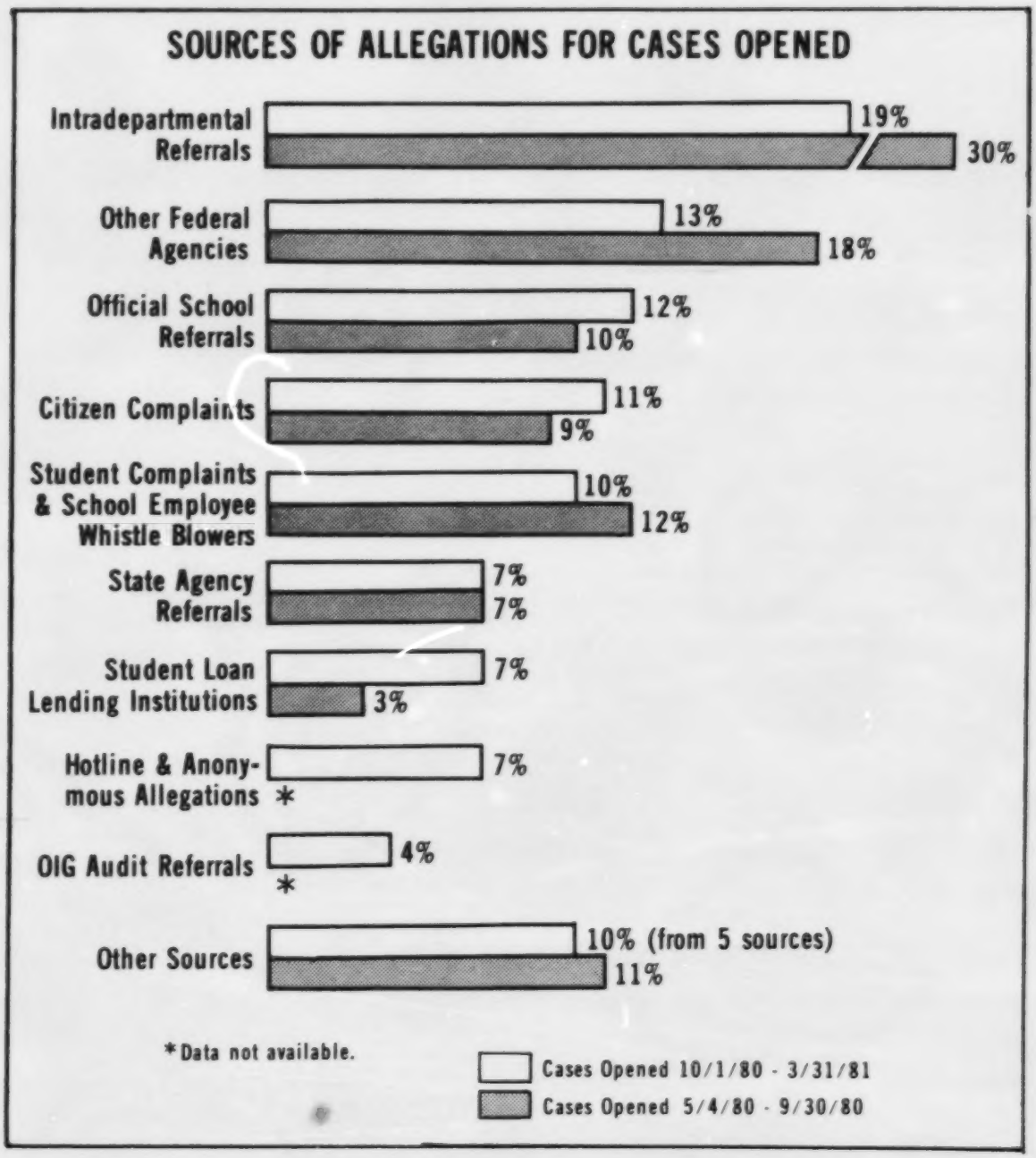
There are approximately 150 distinct programs being administered by the Department. As we diversify our investigative efforts, we expect our caseload to involve many additional education programs.

Most cases involve alleged violations of several criminal statutes. The following list shows the incidence of possible violations among the 220 cases initiated during this reporting period.

ALLEGED CRIMINAL VIOLATIONS

Description	Number of Cases in Which Alleged	Percentage
False Statements	154	37
Fraud using the U.S. Mails, telephone, telegraph or false names or addresses	69	16
Embezzlement and failure to account for public funds	46	11
Student financial aid fraud	40	9
False claims and demands for payment of public funds	35	8
Bank fraud-credit information	23	6
Conspiracy to defraud the U.S.	16	4
Bribery of a public official and conflict of interest	12	3
Other Federal or local statutory violations	23	6

Allegations which lead to OIG investigations reach the Inspector General from many sources. Comparing the cases initiated during this period with those opened during the previous period, by source of allegations, discloses the following:



C. INVESTIGATION RESULTS

During this report period, ten cases which were investigated by OIG were accepted for prosecution by United States Attorneys. Prosecution was declined in twenty-two other cases.

In addition, OIG activities culminated in the indictment of five subjects (individuals or entitites), and conviction of twelve subjects. Three defendants were fined a total of $2,500 and five defendants were sentenced either to incarceration or a period of probation. Several convicted subjects have not yet been sentenced.

Highlights of the more significant matters referred to U.S. Attorneys during this period are briefly described below.

- An official for a local school district has admitted submitting false claims and embezzling Federal funds. The official was a salaried employee of a Federally funded Emergency School Aid Act pilot grant. The case has been accepted by the U.S. Attorney for prosecution.

- A cooperative investigation by the OIG and another Federal investigative agency has uncovered a kickback scheme operated by a school financial aid officer who demanded 10% of any Guaranteed Student Loan monies a student received. The aid officer, in return for the kickback, instructed the student loan applicant on how to falsify the loan applications and recommended certain lenders.

- In February 1981 a case against an individual student was accepted for prosecution by a U.S. Attorney. The case is noteworthy because over a four year period the individual used fictitious names and social security numbers to enroll in a number of schools and obtained Basic Educational

Opportunity Grant and Federal Insured Student Loan funds from each school.

- o A Federal Grand Jury returned a twenty count indictment against an individual for committing fraud in the Guaranteed Student Loan program. The defendant used fictitious names, social security numbers and birth dates to obtain numerous loans from program lenders. In a related case, a confederate was later indicted on similar charges.

- o A case against an individual was accepted for prosecution by a U.S. Attorney during March 1981. The case involved the Basic Educational Opportunity Grant program Alternate Disbursement System, whereby the student receives a form in the mail which is completed by the school and mailed back to the Department. In this case, the individual was no longer a student and falsified the school certification to receive payment.

- o During December 1980, a Federal Grand Jury returned an indictment for embezzlement in connection with the National Direct Student Loan program. The defendant operated a student payment collection service for a group of client schools. Although a major portion of the payments collected were Federal funds to be loaned to other students, the indictment charges that they were diverted for personal use and not reported to the client schools.

- o The OIG is cooperating with another Federal agency in the investigation of a financial organization which used non-existent Guaranteed Student Loan promissory notes as collateral for multimillion dollar loans. The case has resulted in a 27 count indictment and is scheduled for trial during 1981.

1. <u>Update of Previously Reported Investigations.</u>

Our first Semi-Annual Report mentioned two cases in which indictments were returned by Federal Grand Juries. Those matters have since been concluded.

- o Both a husband and wife were convicted for student financial assistance program fraud. She was working in the financial aid office of an educational institution and he was applying for financial aid to attend the same school. She was cited by the court for abusing her position to facilitate the crimes and sentenced to one year imprisonment and 3 years

probation. The husband was sentenced to 3 months imprisonment and 4 years probation.

- o An individual has been fined $500 and received a two year suspended sentence for falsifying applications for student aid funds.

2. Highlights of Matters Referred for Administrative Action.

In cases where deemed appropriate, it is the policy of the Inspector General to refer matters to proper Departmental officials for necessary administrative or personnel action. Where disciplinary action is believed necessary, the Inspector General may recommend such action to the appropriate official.

The following are examples of cases which resulted in administrative referral during this reporting period:

- o A comprehensive investigation established the falsification of travel reimbursement claims by an employee. Although the U.S. Attorney declined to criminally prosecute the matter, Departmental managers discharged the employee and tightened reimbursement procedures as a direct result of our investigation and recommendation.

- o A proprietary school manager used an authorization letter for Basic Grant funding as collateral for a personal loan. After he had defaulted on the personal loan and disappeared, the bank recovered their loan by levying on the proceeds of the Basic Educational Opportunity Grant accounts. Since these funds are Federal monies until paid to individual students, OIG initiated recovery of the funds from the bank through appropriate Departmental officials.

- o An internal investigation of possible abuse of a credit bureau computer terminal by a Claims and Collections employee has identified weaknesses in control and security of credit information. The Inspector General's recommendations to regional management resulted in the implementation of greater control and security safeguards.

D. PROACTIVE INVESTIGATIVE EFFORTS

In keeping with the spirit and intent of the Inspector General Act, the OIG investigation staff has initiated a number of proactive type investigations, particularly in cooperation with other agencies. These efforts are beginning to show significant promise and will play an important role in our future operations.

The following typify these initiatives.

- Liaison efforts with the Department of Interior, Bureau of Indian Affairs have identified areas of mutual interest that are vulnerable to abuse of Federal funds. Indian adult education programs are funded by the Bureau of Indian Affairs and this Department. Areas of overlapping or duplicate programs will be examined.

- Proactive investigations have been initiated in cooperation with the Immigration and Naturalization Service to identify ineligible foreign students receiving student financial aid for attendance at U.S. educational institutions. Agents from the agency are assisting us to identify schools with high concentrations of such students.

SECTION III

FRAUD CONTROL ACTIVITIES

During this reporting period, the OIG began assessing the Department's vulnerability to mismanagement and fraud. We continued the operation of the ED complaint center, and started an employee awareness program to educate ED staff to the potential for fraud, waste and mismanagement. We also developed a plan to perform vulnerability assessments of high dollar programs within the Department.

A. COMPLAINT CENTER

Since the complaint center was established on August 4, 1980, we have received a total of 80 complaints, including 36 referred by the U.S. General Accounting Office. The table on the following page summarizes the complaints by organizational element.

COMPLAINT CENTER

COMPLAINTS RECEIVED

OFFICE	NUMBER	REFERRED TO OIG	REFERRED TO PROGRAM OFFICE	CLOSED BY OIG	CLOSED BY PROGRAM OFFICE	OPEN CASES
Office of Management	11	7	4	5	3	3
Office of Elementary & Secondary Education	10	5	5	2	1	7
Office of Postsecondary Education	28	14	14	9	8	11
Office of Educational Research & Improvement	5	3	2	2	2	1
Office of Vocational & Adult Education	3	3	-	-	-	3
Office of Special Education & Rehabilitative Services	9	4	5	1	3	5
Office for Civil Rights	6	4	2	1	1	4
Office of Bilingual Education & Minority Languages Affairs	2	1	1	1	1	0
Other	6	2	4	2	4	0
TOTALS	80	43*	37	23	23	34

*Of the 43 cases referred to the OIG, 30 were referred to audit or investigation and the remaining cases were closed after review.

Of the 46 complaints closed, ten were substantiated in whole or in part. Some examples of substantiated complaints follow:

- A complaint alleged misuse of ED grant funds by a mid-western university. Reportedly, approximately 50 percent of these funds had been used to pay salaries for positions which were not included in the approved grant budget. Our Office of Audit substantiated the allegations and recommended corrective action by ED officials. The recommendation called for financial adjustments to the grants in excess of $15,000. Resolution of the matter by contracting officials is continuing. In

addition, the school was advised to revise its salary distribution system in order to ensure more effective use of Federal funds in the future. The school has complied with this recommendation.

- An anonymous employee complained of nepotism in one of ED's offices. The caller alleged that a supervisor in the office hired two close relatives for permanent positions without advertisement or competition. An investigation was conducted by the Division of Personnel Investigations and Appeals. As a result of the investigation, one of the relatives hired resigned from the Federal Government. Disciplinary action against the ED hiring official and the other relative is pending.

- Another complaint concerned allegations which were already under investigation by OIG's Office of Investigation. An anonymous caller reported that a supervisory employee was using secretarial staff to type, reproduce, and distribute work which pertained to the subject's pursuit of a Master's Degree. The OIG investigation found the allegations were true. The subject was suspended without pay for 14 days, and has been further advised to make restitution to the Department of approximately $500 to cover the costs of secretarial time and reproduction materials.

B. EMPLOYEE AWARENESS

We are alerting ED employees of their responsibilities to report suspected fraud, waste and mismanagement. In addition to official notices to individual employees and Assistant Secretaries, the OIG prepared and issued a pamphlet entitled "Introducing the Office of Inspector General to ED Employees." This pamphlet explains OIG's purpose, and how the complaint center can be used to report fraud, waste and mismanagement. It also lists the national complaint center telephone number, Headquarters Audit and Investigative telephone numbers and Regional telephone numbers. We are also developing an employee awareness notice which will cover employee misconduct

and ethics. The purpose of this notice will be to heighten employees' awareness of their ethical responsibilities by reminding them of relevant requirements, citing examples of misconduct, and listing the penalties for violating standards of conduct.

C. SPECIFIC PROJECTS

We have developed plans to assess the vulnerability of high dollar programs within the Department. We will review existing reports (audits, investigations, program reviews, statistical progress reports) for patterns and trends which may indicate opportunities for fraud, waste or mismanagement. These patterns and trends will be analyzed to determine whether related legislation, regulations, administrative processes and internal controls are sufficient. These reviews may make recommendations for management's consideration, or suggest areas for audits and/or investigations.

Our initial project involves Student Financial Assistance programs. We are currently performing research, and collecting and screening reports on this group of programs.

SECTION IV

OTHER MATTERS

The following are several other matters which have affected OIG operations during the reporting period.

A. STAFFING

The OIG is working under a full time equivalent personnel ceiling of 304 positions. Of the 304 authorized positions, 300 were filled as of March 31, 1981 and allocated as follows:

LOCATION AND NUMBER OF ON BOARD STAFF

	On Board
Washington	
Auditors	22
Investigators	19
Other Professionals	20
Support	14
TOTAL Washington	75
Field	
Auditors	141
Investigators	50
Other Professionals	5
Support	29
TOTAL Field	225
Total Staffing	
Auditors	163
Investigators	69
Other Professionals	25
Support	43
TOTAL Staffing	300

As reported in our first semi-annual report, our preliminary workload assessment indicated that we would need a substantial increase in our audit and investigative staff. The magnitude of our workload, coupled with increasing demands by Congress, the Office of Management and Budget, and the U.S. General Accounting Office makes it evident that the current personnel ceiling of 304 is far below our actual needs.

The Department has provided some relief by increasing our ceiling from the Fiscal Year 1981 level of 304 to 335 in Fiscal Year 1982.

B. REVIEW OF LEGISLATION AND REGULATIONS

The OIG is required to review existing and proposed legislation and regulations to assess their impact on the Department's activities. Through these assessments, the Inspector General makes recommendations concerning the effect of proposed rules on the effective administration of the Department's programs and operations. Proposed rules are also reviewed to determine their potential impact with respect to the prevention and detection of fraud and abuse.

During the period from October 1, 1980 through March 31, 1981, we reviewed six legislative proposals and 168 proposed regulations affecting ED and the OIG. Comments have been provided to appropriate ED officials for incorporation in ED regulations or Departmental comments on legislation.

C. OFFICE OF PERSONNEL MANAGEMENT REVIEW OF ED

The ED Organization Act required that the Office of Personnel Management submit a report to Congress on the new Department by May 4, 1981. To meet this requirement, the office initiated an agency-level review of ED Headquarters and each of the ten Regional Offices which was designed to:

- Compare mission objectives to accomplishments and work products;
- Identify significant successes and shortfalls, and principal cause for each; and
- Recommend improvements for any identified personnel management deficiencies.

The Office of Personnel Management requested the assistance of the OIG in performance of these reviews, and auditors from Headquarters and each of our Regional Offices were assigned to its review teams. Our participation in the review effort was beneficial to the Office of Personnel Management and provided our auditors with an opportunity to gather valuable audit survey information for future OIG reviews.

D. SUBPOENAS ISSUED

The Inspector General is authorized to issue administrative subpoenas to require the production of information necessary in the performance of mandated responsibilities. During this reporting period, three administrative subpoenas were issued and fully complied with. No administrative subpoenas were issued during the prior reporting period.

E. GENERAL ACCOUNTING OFFICE REPORTS

The OIG is the main control point for handling U.S. General Accounting Office reports to ensure that (1) reports are properly distributed to responsible officials, (2) replies are made timely and accurately reflect the official position of the Department, and (3) actions promised in response to the reports are tracked to completion. Additionally, the OIG maintains continuous liaison with the General Accounting Office to keep informed of its activities within ED and to minimize any potential overlap in audit coverage.

F. REFUSAL OF INFORMATION

Section 5(a)(5) of the Act requires the Inspector General to include in this report a summary of any report made to the Secretary whenever information or assistance is unreasonably refused or not provided.

The OIG has received support from top Departmental management and has not been unreasonably refused or denied information or assistance.

REPORTING REQUIREMENTS

The specific reporting requirements as prescribed in the Inspector General Act of 1978 are listed below.

SOURCE	LOCATION IN REPORT
INSPECTOR GENERAL ACT	
Section 4(a)(2) -- Review of Legislation and Regulations	Section IV, Part B, Page 44
Section 5(a)(1) -- Significant Problems, Abuses, and Deficiencies	Section I, Part C, Page 4 Section II, Part C, Page 34
Section 5(a)(2) -- Recommendations with Respect to Significant Problems, Abuses and Deficiencies	Section I, Part C, Page 4
Section 5(a)(3) -- Prior Significant Recommendations Not Yet Implemented	Section I, Part E, Page 18
Section 5(a)(4) -- Matters Referred to Prosecutive Authorities	Section II, Part C, Page 34
Section 5(a)(5) and 6(b)(2) -- Summary of Instances Where Information was Refused	Section IV, Part F, Page 46
Section 5(a)(6) -- Listing of Audit Reports	Appendix 3, Page 52

SCHEDULE OF

ACCOUNTS RECEIVABLE

The Senate Committee on Appropriations' report on the Supplemental Appropriations and Rescission Bill, 1980 directed the Inspectors General to include in their semi-annual reports a summary of the total amounts due their agency or department, as well as amounts overdue, and amounts written off as uncollectible during the reporting period. The following schedule was provided by the Office of Financial Management for inclusion in our semi-annual report. The accounts receivable statistics have not been audited by the OIG and we are therefore unable to attest to the accuracy of the data provided.

DEPARTMENT OF EDUCATION

SCHEDULE OF RECEIVABLES
AS OF MARCH 31, 1981

Prepared By:
Office of Financial Management
Date: 4/22/81

Type of Receivable	Receivable Amount	Amount Overdue (Over 30 Days)	Witten Off As Uncollectible Oct. 1 thru March 31, 1981	Action Taken or Being Taken to Improve
1. NIE-Audit Disallowances	$ 158,630.75	$ 111,730.75	-0-	See attached note A
2. HUD - Loans	2,846,757,779.33	9,711,282.00	(reserve established-	See attached note B
Notes	154,981,831.47		no writeoffs - loans &	
Accrued Int. Rec.	53,692,847.33		notes secured)	
3. School Assistance in Federally Affected Areas (mainten. & operation)	6,318,945.82	6,318,945.82	-0-	See attached note C
4. Office of Financial Management:				See attached note D
Audit Disallowances	6,059,624.75***	4,327,345.53 *	-0-	
Program reviews	4,501,932.13 **	839,872.88	-0-	
Negotiated Agreements	6,292,091.71	64,884.77	-0-	
Overclaimed Expenditue Reports (DFAFS)	2,369,155.77	-0-	-0-	
Unused cash balances	202,422.60	202,422.60	-0-	
Reimb. for Admin. Costs	83,432.37	-0-	-0-	
Overpays to Airlines (GTR)	49,117.88	-0-	-0-	
Travel Advances	368,500.00	206,812.91	-0-	

* Includes $947,981.00 in referals to the Justice Department for action.
** Includes $713,676.53 pertaining to bankruptcies and defaults
*** Amounts not included in schedule for audit disallownances under appeal $63,249,061.17

DEPARTMENT OF EDUCATION

SCHEDULE OF RECEIVABLES
AS OF MARCH 31, 1981

Type of Receivable	Receivable Amount	Amount Overdue (Over 30 days)	Written Off As Uncollectible Oct. 1 thru March 31, 1981	Action Taken or Being Taken to Improve
5. Office of Student Financial Assistance				
Federally Insured Student Loans	$ 753,558,954.00(est)	$599,639,954.00(est)	$6,931,530.00(est)	Private contractors are requested as collection agents. Legislation enacted 12/80 allows use of IRS skip trace service.
Federal Capital Contributions-NDSL	3,785,000,000.00 1/			
National Direct Student Loans	215,000,000.00(est)	209,000,000.00(est)	230,000.00(est)	
Cuban Student Loans	13,054,214.98	12,992,915.32	-0-	
Law Enforcement Education	122,568,203.62	8,041,606.00	44,238.00	
Basic Educational Opportunity Grants	760,000.00(est)	701,696.00(est)	-0-	
Grand Total Department of Education	$7,971,777,684.51 2/	$852,159,468.58	$7,205,768.00	

1/ Consists of cash in institutional revolving funds as of 6/30/80. The next annual report on cash balances is due 6/30/81.

2/ Does not include amount under GSL-Guaranteed agencies, amounts as of 3/31/81 will not be available until May, 1981.

50

Attachment to
Department of Education Schedule of Receivables
As of March 31, 1981

Note A

Action taken

a. Steps were taken to ensure that the Division receives all necessary documentation relating to audit reports, audit clearance documents and final letters of determination.
b. A system was implemented to ensure demand letters are sent within thirty days.
c. Timely response to debtors' communication.
d. Developed a system to age receivables.
e. Usage of IRS locator skip tracing to locate auditee when sufficient address is not available.

Plans

a. Final letters of determination informing auditee of financial adjustments will be sent by certified mail and questionaire regarding method of payment.
b. Evaluation of quarterly receivables due and reconcile with Contracts and Grants Division.

Note B

Action taken

a. Work is continuing with Federal Reserve Bank to provide more timely and accurate information.

Plans

a. Transfer of activity for receivable processing to the ED.

Note C

Action taken

a. Offset on future awards is main means of collection of receivable.
b. Followup letters are prepared requesting funds where offset is not possible.

Plans

None

Plans to reduce writeoffs

Debts of less than $200. are written off after review almost automatically. Uncollectibles over $200. are turned over to GAO for collection. Incidence of noncollectible is minimal.

Note D

Action taken

a. Interest penalty charges are assessed on all delinquent payments.
b. Internal procedures are currently in process of being more clearly defined relative to the communication between debtors and the various Divisions within the office.
c. Documentary evidence of attempts to borrow from at least three commercial lending institutions are required before long term installments are agreed to with the institution.
d. Agreement developed between HUD and ED for HUD to receive and dispose of any property received by ED.
e. Special task force is in process to eliminate backlog of returned checks.
f. Outstanding receivables are monitored more closely to ensure timely followup.

Federal Audits of Education Department Programs
October 1, 1980 through March 31, 1981

Section 5(a)(6) of the Inspector General Act requires a listing of each audit report completed by OIG during the reporting period. A total of 133 audit reports were completed by Federal auditors, 79 with audit findings and 54 without findings. These reports are listed below:

A. Reports With Audit Findings

Number	Auditee and State	Date Issued
01-13001	Dept of Education - OSFA Division of Claims and Collections, MA	03/10/81
01-14001	Brown University, RI	12/17/80
01-14002	Brown University, RI	12/12/80
01-14004	Brown University, RI	12/17/80
01-14006	Massachusetts Institute of Technology, MA	03/24/81
02-11350	Health Careers Academy, Inc., NJ	02/10/81
02-14001	Puerto Rico Education Dept, PR	12/31/80
02-14002	Puerto Rico Dept of Social Services, PR	12/31/80
02-14003	Puerto Rico Dept of Social Services, PR	12/31/80
02-14004	Puerto Rico Education Dept, PR	12/31/80
02-14005	New Jersey Dept of Labor and Industry, NJ	01/19/81
02-14006	Puerto Rico Education Dept, PR	03/03/81
04-14000	Allen University, Columbia, SC	01/09/81
04-14002	Florida Dept of Health and Rehab Services, FL	12/17/80
05-14203	Ohio Dept of Education, OH	02/03/81
05-14351	Advance Schools, Inc., IL	01/06/81
06-14000	New Mexico Dept of Education, NM	11/26/80
06-14001	Texas Education Agency, TX	02/12/81
07-11451	Blue Hills Home Corp., MD	01/15/81
07-14000	Lakes Country Rehab Center, MD	01/12/80
07-14001	Wichita State University LEEP Program, KS	01/08/81
08-13301	National Center for Higher Education Management System, CO	11/19/80
08-13300	National Center for Higher Education Management System, CO	11/13/80
08-13302	Social Science Consortium, Inc., CO	11/19/80
08-14000	Colorado Migrant ED Program, CO	12/09/80
09-10001	California Dept of Education, CA	02/23/81
09-13304	Golden Gate University, CA	03/10/81
10-10000	Yam Hill School District, OR	11/14/80
10-10555	Washington State Vocational Rehab Service, WA	01/08/81

Number	Auditee and State	Date Issued
10-14000	Oregon Dept of Education, OR	12/08/80
10-14001	Nisqually Indian Tribe, WA	02/26/81
11-13007	Education Department - Division of Financial Management, D.C.	02/02/81
12-13533	High Point Public Schools, NC	02/04/81
12-13668	University of Texas at Arlington, TX	01/26/81
12-13669	Resource Development Institute, TX	02/25/81
12-13670	Resource Development Institute, TX	03/26/81
12-13762	Blue Hills Home Corp., MO	01/23/80
12-13763	Blue Hills Home Corp., MO	01/23/80
12-13764	Blue Hills Home Corp., MO	01/23/80
12-13765	Blue Hills Home Corp., MO	01/23/80
12-13837	National Center for Higher Education, CO	12/15/80
12-13838	North Colorado Education Board of Cooperative Services, CO	02/04/81
12-13840	Education Comm. of the States, CO	03/17/81
12-13841	Education Comm. of the States, CO	03/17/81
12-13958	Idaho State Dept of Education, ID	12/15/80
12-14051	Capla Associates, NJ	11/26/80
12-14051	New York Institute for Education of the Blind, NY	11/26/80
12-14052	New York Institute for Education of the Blind, NY	11/26/80
12-14054	New Jersey Dept of Education, NJ	01/22/81
12-14055	Institute for Education Development, NY	01/23/81
12-14100	Institute of Modern Procedures, VA	11/26/80
12-14102	Joseph Fromkin, Inc., D.C.	11/26/80
12-14103	Opportunity Industrial Center of America, PA	12/05/80
12-14105	Rehabilitation Group, Inc., VA	01/15/81
12-14106	ICF Incorporated, D.C.	01/06/81
12-14107	ICF Incorporated, D.C.	01/22/81
12-14113	Virginia Union University, VA	02/19/81
12-14114	Development Associates, Inc., D.C.	03/26/81
12-14130	George Peabody College, TN	11/26/80
12-14152	NTS Research Corporation, NC	11/26/80
12-14153	NTS Research Corporation, NC	01/22/81
12-14157	University of Kentucky Reserch Foundation, KY	03/26/81
12-14252	Texas Education Agency, TX	03/11/81
12-14301	Des Moines Independent School District, IA	01/22/81
12-14302	Iowa Dept of Public Instruction, IA	01/23/81
12-14303	Iowa Dept of Public Instruction, IA	01/23/81
12-14304	Iowa Dept of Public Instruction, IA	01/23/81
12-14305	American College Testing Program, Inc., IA	01/26/81
12-14311	American College Testing Program, Inc., IA	03/27/81

Number	Auditee and State	Date Issued
12-14350	Utah Native American Consortium, Inc., CO	11/26/80
12-14352	University of Montana, MT	02/25/81
12-14400	University of California at Los Angeles, CA	11/26/80
12-14401	University of California at Los Angeles, CA	01/05/81
12-14402	University of California at Los Angeles, CA	01/05/81
12-14403	University of California at Los Angeles, CA	01/05/81
12-14404	University of California at Los Angeles, CA	01/22/81
12-14405	Berkeley Planning Associates, CA	01/26/81
12-13395	China Manpower Project, Inc., NY	02/04/81
12-13881	Disability Rights Education and Defense Funds, CA	02/26/81

B. Reports without Findings

Number	Auditee and State	Date Issued
02-10100	Montclair Board of Education, NJ	10/14/80
02-11201	Fordham University, NY	12/31/80
02-11202	Robert Fiance Hair Design Inst., NY	12/31/80
02-11203	Harcourt Brace Jovanovich, Inc., NY	01/16/81
02-11204	Macmillion, Inc., NY	01/19/81
02-13000	Education Dept - Region II, NY	10/14/80
03-13000	Lincoln County School District, WV	10/14/80
03-14000	Applied Urbanetics, D.C.	10/02/80
03-14007	Virginia Dept of Education - Vocational Education, VA	12/30/80
12-13396	Academy for Educational Development, Inc., NY	02/04/81
12-13438	Reading is Fundamental, Inc., D.C.	12/15/80
12-13439	Pennsylvania Higher Education Assoc., PA	03/11/81
12-13440	Education Turnkey Systems, Inc., PA	02/04/81
12-13441	American Coalition of Citizens Disabled, D.C.	03/26/81
12-13536	Barrier Free Environments, Inc., GA	02/10/81
12-13577	Minnesota Dept of Economic Security, MN	03/10/81
12-13578	Ohio Department of Education, OH	03/18/81
12-13667	Central Oklahoma Vocational and Technical Schools, OK	02/04/81
12-13839	National Institute of Education, D.C.	03/17/81
12-13956	Panhandle Child Development, Inc., ID	12/15/80
12-13957	Panhandle Child Development, Inc., ID	12/15/80
12-14053	Educational Testing Service, NJ	01/22/81
12-14056	Educational Testing Service, NJ	03/18/81
12-14101	University of Virginia, VA	11/26/80
12-14104	Systems Sciences, Inc., MD	12/15/80
12-14108	Practical Concept, Inc., VA	01/23/81
12-14109	Bureau of Social Science Research, Inc., D.C.	01/23/81
12-14110	Bureau of Social Science Research, Inc., D.C.	01/22/81
12-14111	Rehabilitation Group, Inc., VA	02/25/81
12-14151	Mississippi State University, MS	11/03/80
12-14154	University of Miami, FL	02/25/81
12-14155	Research Triangle Institute, NC	03/05/81
12-14156	Research Triangle Institute, NC	03/05/81
12-14200	MacMurray College, IL	11/26/80
12-14201	University of Minnesota, MN	11/26/80
12-14202	Illinois Wesleyan University, IL	12/05/80
12-14203	University of Minnesota, MN	02/04/81
12-14204	Northwestern University, IL	03/05/81
12-14205	University of Michigan, MI	03/11/81
12-14206	University of Michigan, MI	03/26/81
12-14250	Delgardo College, LA	11/26/80

Number	Auditee and State	Date Issued
12-14251	Tulane University, LA	03/11/81
12-14300	Native American Research Inst., KS	11/ /80
12-14306	CEMREL, Inc., MO	01/26/81
12-14307	Midwest Research Institute, MD	02/25/81
12-14308	St. Louis University, MO	03/06/81
12-14309	American College Testing Program, Inc., IA	03/11/81
12-14310	Wichita State University, KS	03/27/81
12-14351	Colorado School of Mines, CO	11/26/80
12-14353	University of Colorado Health Science Center, CO	03/11/81
12-14354	University of Colorado, CO	03/11/81
12-14450	University of Oregon, OR	03/18/81
12-14451	Oregon State University, OR	03/18/81
12-14452	University of Washington, WA	03/11/81

* U.S.G.P.O. 729-568/1302-2094